BRITAIN'S FINANCIAL AND ECONOMIC CRISIS

by

MAXWELL S. STEWART

with the aid of the Research Staff of the Foreign Policy Association

INTRODUCTION

FEW developments since the close of the World War have come as such a shock to the public as the announcement on September 20 of the temporary suspension of gold payments by the Bank of England. Even the series of political and financial crises which culminated in the downfall of the second Labour government and the establishment of a National Government of Conservatives, Liberals and a few Labourites under the leadership of Prime Minister J. Ramsay MacDonald had been insufficient as a warning of the fundamental nature of the difficulties facing Great Britain. The shock was all the more severe in view of the country's long-established reputation for financial stability and the pre-eminent position of sterling as the basis of the world's trade. Moreover, the departure from the gold standard seemed particularly inexplicable at the moment because it followed closely upon the introduction by the new government of emergency measures designed to balance the budget and to remove what had appeared to be the greatest menace to the stability of sterling. Later developments, however, seemed to confirm the fact that the budgetary difficulties which brought about the resignation of the Labour cabinet were merely a result of the basic economic weaknesses that had caused a growing loss of confidence in sterling and had led to serious depletion of the gold reserves.[1]

SYMPTOMS OF BASIC DISORDER

It is necessary, then, for the sake of clarity to make a sharp distinction between the immediate crisis and the fundamental economic *malaise*, of which the crisis is but an unmistakable symptom. Although Britain's difficulties have been greatly intensified by the current world depression, signs that its pre-eminent financial position was gradually being undermined have not been wanting since the end of the World War. The chief symptom has been the perennial presence of unemployment. Since the end of 1920 there have been only a few brief intervals when the total number of jobless men and women in Great Britain has fallen below a million,[2] and the number has risen steadily in recent months until on September 28, 1931 it reached 2,825,772.[3] While there have been crises in British history when the number of unemployed has been comparable to that of recent years, a situation in which at least 10 per cent of the insured workers have been continuously idle for over a decade is without precedent.

The presence of such widespread unemployment may be attributed largely to the falling-off of British export trade since the war, which in itself is another important indication of the basic nature of the problem England faces. Even in 1928, which was relatively a good year, exports were 15.6 per cent under those of 1913 when measured in terms of the pre-war price level.[4] Moreover, while several other important European countries have suffered a decline of trade since the war, the reduction in England has been particularly alarming because the country has steadily lost ground in relation to its chief competitors.[5] Imports, on the other hand, have shown a tendency to increase, with the result that Great Britain's normally adverse balance of trade has become even more unfavorable, threatening the country's long-established financial supremacy. This has been evidenced for a number

1. Cf. "Outlook for Sterling," *The Economist* (London), August 29, 1931, p. 383.

2. April 1926, May and June 1927. Even on these occasions the total was but a few thousands under a million.

3. *New York Times*, October 7, 1931.

4. League of Nations, Economic and Financial Organization, *Memorandum on International Trade and Balances of Payments, 1927-1929* (Geneva, 1930), Vol. I, p. 101.

5. Cf. A. Loveday, *Britain and World Trade* (London, Longmans, Green and Company, 1930), p. 153 *et seq.*

of years, in the tendency of gold to flow out of the country.[6] Although until the summer of 1931 the actual loss of gold was not great, upon several occasions the Bank of England was forced to adopt restrictive measures to prevent a drain upon its reserves, and these measures in themselves affected business conditions unfavorably.[7]

GREAT BRITAIN'S FUNDAMENTAL PROBLEMS

UNIQUE POSITION

While many countries are faced at the present time with serious dislocation of their economic machinery, the situation in which England finds itself is in many respects unique. As the first country to develop large-scale industry, England has become very largely dependent upon the income gained from the export of the products of its factories. Nourished by the prosperity obtained in this manner, the population of England virtually tripled during the past century[8] until the foodstuffs raised on the island are insufficient to feed the present population. Eighty per cent of the population is urban, and 60 per cent of the food must be imported from abroad. During 1930 the United Kingdom's total imports were valued at nearly five billion dollars, or more than $100 per capita—a high figure in comparison with most countries.[9]

DECLINE IN EXPORTS

Although Great Britain still remains the largest single exporter of manufactured goods, the failure of the export trade to keep pace either with imports or with the exports of its chief competitors has caused no little anxiety. During the past six years British exports of manufactured goods have barely held their ground, while those of Germany, Belgium and the United States have made steady progress. Moreover, as is indicated in Tables I and II, there has been a steady decline in Britain's share of world exports.

TABLE I

Exports of Manufactured Goods on a Common Classification[10]

(In millions of pounds sterling)

Year	*United Kingdom*	*United States*	*Germany*	*France*	*Belgium and Luxemburg*	*Japan*
1925	610.0	351.7	333.0	318.2	79.3	126.6
1926	529.5	363.2	350.5	264.3	69.7	101.7
1927	548.9	386.7	377.7	291.0	88.0	94.9
1928	570.3	434.2	435.7	287.4	101.7	94.8
1929	563.2	482.7	481.3	273.4	108.0	108.3
1930† (6 mo.)	235.7	206.1	225.3	123.4	47.5	43.1

†Provisional figures.

TABLE II

Percentage of World Exports[11]

(By Value)

	1913	*1924*	*1925*	*1927*	*1928*	*1929*
United Kingdom†	13.93	13.01	12.43	11.00	10.83	10.84
United States	13.34	16.54	16.04	15.17	15.48	15.75
Germany†	13.09	5.73	6.97	7.76	8.51	9.21
France†	7.23	7.98	7.21	6.90	6.20	6.00
Italy†	2.64	2.30	2.42	2.57	2.36	2.39
Japan	1.72	2.68	3.03	2.89	2.73	2.96
Sweden	1.19	1.23	1.22	1.38	1.30	1.48
Europe (as a whole)	55.20	45.20	44.10	47.20	47.00	48.30

†Changes in territory between 1913 and 1924.

6. *Ibid.*, p. 7; cf. also Committee on Finance and Industry (Macmillan Committee), *Report* (London, H. M. Stationery Office, 1931), Cmd. 3897.

7. Committee on Finance and Industry, *Report*, cited, p. 7, 73, 76-78.

8. The population of England and Wales was 13,896,797 in 1831; the provisional figures for 1931 give the population as 39,947,931. *The Statesman's Year Book, 1931* (London, Macmillan and Company, 1931), p. 12; and Great Britain, *Census of England and Wales 1931* (10 and 11, Geo. V., Chap. 41), *Preliminary Report*, 70-254.

9. Cf. Committee on Finance and Industry, *Report*, cited, p. 46. United States imports for 1930 totalled less than $25 per capita.

10. Midland Bank (London), *Monthly Review*, August-September, 1931. (Based on *Statistical Tables relating to British and Foreign Trade and Industry (1924-30), Part I*, Cmd. 3737.)

11. Figures previous to 1927 from *Britain's Industrial Future* (London, Ernest Benn, 1928), p. 25. (Extracted from League of Nations, *Memorandum on Balance of Payments*, etc., 1911-1925.) Later figures from *Memorandum on International Trade and Balances of Payments, 1927-1929*, cited, Vol. I, p. 15, 22-23.

As the value of imported goods is nearly twice that of British exports, it is obvious that the country must draw upon other sources of income to maintain a balance of international payments. As a matter of fact, England's income from foreign investments, together with commissions received for banking, insurance and shipping services, ordinarily have been more than sufficient for this purpose,[11a] leaving a surplus which is normally utilized for making further loans abroad. The vast amount of capital which Britain has invested overseas[12] virtually insures a substantial credit balance under ordinary circumstances, but affords no remedy for the depressed state of export industries or for unemployment. The balance of international payments from 1924 to 1930 inclusive is shown in Table III.

TABLE III

The Balance of Payments of the United Kingdom, 1924 to 1930[13]

(In millions of pounds sterling)

	1924	*1925*	*1926*	*1927*	*1928*	*1929*	*1930*
Excess of imports of merchandise and bullion	324	384	475	390	358	366	392
Government receipts from overseas (net)	25†	11†	4	1	15	24	21
Net national shipping income	140	124	120	140	130	130	105
Net income from overseas investments	220	250	285	285	270	270	235
Net receipts from short interest and commissions	60	60	60	63	65	65	55
Net receipts from other sources	15	15	15	15	15	15	15
Total Receipts	410	438	484	504	495	504	431
Estimated total credit balance on above items	86	54	9	114	137	138	39
New overseas issues on London market	134	88	112	139	143	94	109

†Excess of payments made overseas.

POST-WAR CHANGES AFFECTING ENGLAND

The first symptoms of the economic malady which overcame England after the World War were already visible in the last quarter of the nineteenth century. As early as 1886, a Royal Commission was appointed "to enquire into the Depression of Trade and Industry,"[14] and a number of other similar studies have been made since that time.[15] Yet in spite of relative losses of trade to Germany and later to the United States, no other nation could effectively challenge British supremacy in trade and industry before the outbreak of the World War. It was only natural, however, that as the leading exporting nation England's foreign trade should have suffered the full effects of the war as well as the uncertainty of the post-war period.

Growth of Economic Nationalism

In the first place, while the war did not bring about the world-wide movement toward national economic self-sufficiency, it unquestionably accelerated its growth. The shortage of goods caused by war-time blockades led many countries to seek to produce all essential manufactured products within their own boundaries, aided where necessary by high protective tariffs. Obviously, this development has been particularly detrimental in its effects upon British trade, especially with regard to the export of such basic products as machinery, iron and steel, and textiles. Today we find even the minor states seeking to develop the manufacture of these staples, with the result that the industries which were the pride of pre-war England are now its chief source of weakness.

Two additional factors have worked for the development of industry in formerly backward countries. First, it has often proved more economical to locate factories

11a. Cf. however, p. 335.

12. Exclusive of intergovernmental debts, Great Britain's investments abroad at the beginning of 1931 amounted to $18,888,500,000. The corresponding figure for the United States was $17,528,254,000. Cf. *A Picture of World Economic Conditions at the Beginning of 1931* (New York, National Industrial Conference Board, 1931), p. 12; also Max Winkler, "America's Stake Abroad," F. P. A. *Information Service,* Vol. VI, No. 24, Part II, February 4, 1931, p. 454. It is probable that both of these figures are somewhat high, but it is significant that England has normally had a credit balance of international payments for overseas investment.

13. Committee on Finance and Industry, *Report,* cited, Appendix IV, p. 305.

14. Cf. *Final Report of the Royal Commission appointed to enquire into the Depression of Trade and Industry* (London, H. M. Stationery Office, 1886), C-4893.

15. Cf. André Siegfried, *England's Crisis* (New York, Harcourt, Brace and Company, 1931), p. 29.

nearer to both the source of raw materials and the ultimate consumer in order to save transportation costs; second, British and other Western capitalists have found it profitable to utilize the cheap labor of the East by opening factories in China and India. The result of these tendencies has been the extensive development of the manufacture of cotton goods in the East,[16] and the rise of Japan as a first-rate industrial power. The growth of industry in the East has led not so much to a decrease in the demand for Western industrial goods as to a change in the type of goods demanded; but England's competitors, for one reason or another, have shown themselves more adaptable to changing circumstances than England,[17] which has failed to capture a dominant position in any twentieth century industry.[18]

Rise of the United States to Financial Leadership

England's position has also been affected by the rise of the United States to a position of industrial and financial leadership as a result of the war. The advantages of great concentration of capital which England formerly enjoyed have now passed to this country, with the result that despite a high wage scale the United States has been able by virtue of mass production to undersell Great Britain in a number of important products. An analysis of trade figures during the past decade shows that the United States has been able to make marked headway in South America and the Far East, and that its gains have roughly corresponded to Great Britain's losses.[19] Even in Europe the trade of the United States has shown gains, many of them at England's expense.[20] Moreover, many competent observers feel that the entry of the United States into the group of chief creditor countries has caused a dispersion of initiative and responsibility in the leadership of international finance which has resulted in substantial variations in the volume of international investments and a consequent dislocation of the price level.[21]

Disruption of Trade with India and China

Political disturbances in India and China and the relative stagnation of trade which has existed throughout the Far East during the last few years have also been important factors in restricting British export trade. This difficulty has been intensified during the past two years by the abnormally low value of silver, and the decreased purchasing power resulting from the unprecedented decline in commodity prices throughout the world. The decline of exports to India is particularly important as it is the largest of Great Britain's overseas markets, having taken 13.4 per cent of the total British domestic exports in 1913 and 11.5 per cent in 1928.[22]

Restoration of Sterling To Pre-War Parity

The internal situation has been affected further by the fact that unlike any of the other chief European participants in the World War, Great Britain has assumed its full obligation for the indebtedness contracted during the war by restoring sterling in 1925 to its pre-war parity.[22a] As a result, Britain has been struggling under the heaviest debt burden of any country in the world,[23] and nearly 30 per cent of its national

---

16. Committee on Finance and Industry, *Report,* cited, p. 50.
17. Loveday, *Britain and World Trade,* cited, p. 176-77.
18. A similar change in the make-up of world purchases has also been noticeable in the case of a gradually lessening demand for coal due to the increasing use of oil and hydro-electric power. This development has been particularly unfortunate for Great Britain as its economic position has rested very largely upon coal, of which it has had an abundance, while its reserves of oil and water-power are relatively unimportant.
19. In 1913 South America took 27.9 per cent of its imports from the United Kingdom and only 16.2 per cent from the United States; in 1928 its imports from the United Kingdom dropped to 18.8 per cent of the total and those from the United States rose to 28.8 per cent. Similarly, China took 16.5 per cent of its imports from the United Kingdom in 1913 and 26.4 per cent from Japan and the United States; in 1927, it took 7.3 per cent from the United Kingdom and 44.5 per cent from the other two. (Loveday, *Britain and World Trade,* cited, p. 157.)
20. The United States, however, is still unable to compete with Great Britain in the world markets in such staple exports as coal, textile, and many iron and steel products. (Committee on Finance and Industry, *Report,* cited, p. 53.)
21. *Ibid.*, p. 68, 79 *et seq.;* also Secretariat of the League of Nations, *The Course and Phases of the World Economic Depression* (Geneva, 1931), p. 204-215.
22. The following table shows the trend of trade between the United Kingdom and India since the war.

(*In thousands of pounds sterling*)

	1913	*1924*	*1927*	*1928*	*1929*	*1930*
Imports from British India	48,420	78,873	65,840	64,473	62,845	51,058
Exports to British India	70,273	90,577	85,045	83,900	78,277	52,944

(Figures taken from United States, Department of Commerce, *The United Kingdom,* Washington, Government Printing Office, 1930, p. 546, and *Statesman's Year Book, 1931,* p. 56.)

The decline in trade between the United Kingdom and India is not entirely accounted for by disturbed economic conditions, however, for the United States increased its share in the India market from 2.6 per cent in 1913 to 9.1 per cent in 1927, while the British share in Indian imports fell from over 64 per cent in 1913 to 47.2 per cent in the fiscal year ending March 31, 1927. India's foreign trade, however, has fallen from £448,000,000 in 1928 to £334,000,000 in 1930.

22a. A similar policy, moreover, led to the funding of Great Britain's $4,600,000,000 war debt to the United States at an exceptionally high rate of interest. Annual payments from 1923 to 1930 averaged over $160,000,000.

23. England's gross debt on March 31, 1930 was £7,596,000,000 ($37,980,000,000), involving an annual charge upon the budget of £355,000,000 ($1,775,000,000). (*Statesman's Year Book, 1931,* p. 38.) According to a statement made in the House of Commons by Mr. Winston Churchill, the national debt

income has been taken for local or national taxes.[24] Moreover, restoring the pound to parity necessitated the lowering of sterling prices, if British goods were to compete favorably in the world market. This was rendered exceedingly difficult because the rate of taxation remained at the inflated level, and because the trade unions were strongly enough entrenched to resist a cut in money wages. Britain's position was especially unfavorable because Austria, Germany, France and Italy had either wiped out their internal debts by inflation or materially reduced them by devaluation of currency, a process which also kept wages low and gave them a temporary competitive advantage.[25] It is doubtful, however, whether this factor has played as important a part in Britain's post-war difficulties as some authorities would have us believe, for, as indicated in Table IV, most of the countries which remained on the gold standard or which restored their currency to its former parity show a greater growth in exports than the countries which resorted to inflation.

TABLE IV
Gold Value of Exports in 1927 as a Percentage of Exports in 1913[26]

Countries with Devaluated Currencies		*Countries Restoring Pre-War Gold Parity*	
France	163	Denmark	226
Germany	101	Norway	173
Italy	169	Sweden	198
		Switzerland	146
		Great Britain	135

The increase in both the number and height of tariff barriers since the war also may have played an important part in hindering British exports. It has already been seen that many countries utilized high tariffs in developing backward industries within their boundaries.[27] As one authority points out, however, if high tariffs were the cause of Britain's difficulties, they should have curtailed the trade of other nations more than that of the United Kingdom, for England receives most-favored-nation treatment wherever it is granted and has in addition the advantage of imperial preference throughout the Empire.[28] Nevertheless, the fact that Great Britain is more dependent upon foreign trade than any other country save possibly Germany makes it more vulnerable than others to the losses which have been inflicted upon international commerce by tariff walls.

EFFECT OF THE WORLD DEPRESSION

Although the commerce and many of the basic industries of England have been seriously depressed since the war, conditions have become even more alarming since the beginning of the world depression in 1929. Although the initial stages of the depression were felt chiefly in raw-material producing sections of the world and by the debtor rather than the creditor nations, Great Britain has been affected even more seriously than its chief European competitors. An indication of this may be found by a comparison of the exports of France, Germany and the United Kingdom for 1930, in terms of the trade carried on in 1928.

TABLE V
Changes in the Value of Exports in 1929 and 1930[29]

(1928=100)

	1928	*1929*	*1930*
United Kingdom	100	100.7	78.5
France	100	97.6	83.4
Germany	100	109.8	98.0

The decline in the world price level which has accompanied the depression has proved particularly unfortunate for England because of a peculiar lack of flexibility in industrial costs. Not only is the English tax burden higher than that of any other country, but the wage scale has been tenaciously guarded by the labor unions despite the falling cost of living. There has been, moreover, a much sharper decline in the value of exports than in imports, in spite of the fact that the prices of imported goods have fallen more than those of the manufactured goods which make up Britain's exports.[30]

amounted to $842.50 per capita in 1927. This may be compared with a per capita debt of $72.50 in 1913. The corresponding figures for the United States were $158.28 per capita in 1926 and $12.26 in 1913. (United States figures from United States Department of Commerce, *Statistical Abstract of the United States, 1930*, Washington, Government Printing Office, 1930.)

24. *While it is obviously impossible to calculate such items* as the national income or even the total national revenue with precision, in March 1931 the president of the Board of Trade estimated the national income of the United Kingdom to be £3,600,000,000 and the total amount of revenue collected through national and local taxation for the year ending March 31, 1931 to be approximately £1,050,000,000.

25. Committee on Finance and Industry, *Report*, cited, p. 6, 7, 51, 54-5.

26. Loveday, *Britain and World Trade*, cited, p. 159.

27. Cf. p. 325.

28. Loveday, *Britain and World Trade*, cited, p. 169.

29. *The Course and Phases of the World Economic Depression*, cited, Appendix, Table IX, p. 328-29.

30. The following table shows the changes in the quantum and value of imports and exports of the United Kingdom for 1930.

UNEMPLOYMENT

The most apparent and most unfortunate aspect of Britain's post-war depression has been the constant and growing number of unemployed. Although as an industrial nation Great Britain has been afflicted with periodic recurrences of unemployment, there has never been so large a proportion of wage earners out of work for so prolonged a period as during the last decade; the average pre-war level was probably less than half as high.[31] The gravest aspect of the situation, moreover, has not been the huge numbers thrown out of work during the depressions of 1921 and 1930-1931, but the fact that there appear to be at least a million more workers than jobs, even in periods of the greatest industrial activity.

TABLE VI
Number of Unemployed in Great Britain and Northern Ireland[32]

End of December	*Number of Unemployed*	*Yearly Average Percentage of Insured Workers Unemployed*
1921	2,037,501	17.0
1922	1,464,266	14.3
1923	1,229,302	11.7
1924	1,262,769	10.3
1925	1,243,087	11.3
1926	1,431,840	12.5
1927	1,194,305	9.7
1928	1,333,611	10.8
1929	1,344,220	10.5
1930	2,499,780	16.1
		Monthly Average
1931, June	2,664,889	21.8
Aug.	2,762,219	22.7
Sept.	2,825,772*	23.2**

*The total on November 2, 1931 was 2,710,944, a drop of 115,000 from the highest figure. This was still 447,817 higher than a year ago (*New York Times,* November 11, 1931.)
**Estimate.

The decline in the volume of exports and the constant stagnation of the industries mainly associated with export are the principal explanations of this situation. Coal, iron and steel, engineering, shipbuilding, cotton and wool have been England's chief exporting industries, and these trades have contributed disproportionately to the total number of jobless men and women. This was true even in 1927, one of the best of the post-war years.

TABLE VII
Unemployment in the Staple Industries of Great Britain[33]

Industry	*Unemployed, November 1927*	*Per cent*
Coal mining	221,754	18.5
Metal manufacturing	62,975	18.4
Engineering	71,904	9.7
Shipbuilding and ship repairing	46,822	21.7
Cotton and Wool	87,395	10.7
Total	490,850	14.7
Other trades	718,836	8.2
GRAND TOTAL	1,209,686	9.9

The depression of 1930-1931 has affected these industries even more adversely than those dependent upon the home market. In October 1930, for example, 2,308,000 persons, or 18.7 per cent of the total number of insured workers in Great Britain and Northern Ireland, were unemployed.[34] The percentage of unemployment in the coal-mining industry during this month, however, was 26.5 per cent; in pig iron, 34.6 per cent; in iron and steel, 41.4 per cent; in engineering, 19.4 per cent; in shipbuilding, 40.1 per cent; in cotton, 41.3 per cent; and in wool 24.9 per cent.[35]

Insurance Acts of 1911 and 1920

There can be no question that the burden of unemployment has affected the individual much less severely than would have been the case had there not existed a comparatively comprehensive scheme of unemployment insurance. The first unemployment insurance act was adopted by Parliament in 1911,[36] and covered a restricted group of trades employing approximately 2,500,000 workers. The scope of the law was enlarged slightly in 1916, and broadened by the Act of 1920 to cover about 11,100,000 persons, including virtually the entire working class with the exception of those engaged in agriculture,

	(1928=100)		
	Quantum	*Value*	*Relative Price*
Imports	103.4	89.1	86.1
Exports	84.6	78.5	92.8

The Course and Phases of the World Economic Depression, cited, p. 326, 328.

31. Mary Barnett Gilson, *Unemployment Insurance in Great Britain* (New York, Industrial Relations Counselors, 1931), p. 3.

32. Figures from *Twentieth Abstract of Labour Statistics of the United Kingdom,* Cmd. 3831, p. 49. Figures for 1931 from *The Times* (London), July 8, 1931 and September 9, 1931, and *New York Times,* October 7, 1931. Percentages from Gilson, *Unemployment Insurance in Great Britain,* cited, p. 5, and *Ministry of Labour Gazette,* Vol. XXXIX, No. 9, September 1931.

33. *Britain's Industrial Future,* cited, p. 23. (Compiled from the *Ministry of Labour Gazette,* December 1927.)

34. *Ministry of Labour Gazette,* July 1931.

35. *The Labour Year Book, 1931* (London, Labour Publications Department, 1931), p. 56-8.

36. Great Britain, Public General Acts (1 and 2, Geo. V., 1911, Chap. 55, Part II), *National Insurance Act, 1911,* p. 422 *et seq.*

horticulture, private domestic service, and those employed in non-manual labor and earning more than £250 a year.[37] The Act of 1911 undertook to provide a limited benefit for involuntary unemployment among regularly employed workers in the trades covered. It established a benefit of 7*s.* a week for both men and women, payable after one week for a period of not more than fifteen weeks out of any twelve months, and not to exceed the ratio of one week's benefit for each five weeks' paid-up contributions. To obtain this benefit the insured worker had to prove that he had been employed in the insured trade not less than twenty-six weeks in each of the preceding five years, and "that he was capable of work but unable to secure suitable employment."[38] These provisions remained in force throughout the war, when the scheme was not really tested because of the exceptionally favorable conditions of employment. The same principles were in a large measure retained in the Act of 1920.[39]

Introduction of Transitional Benefits

A marked increase in unemployment in 1921, however, forced the government to make a fundamental change in policy. Only a minority of the unemployed had been insured under the provisions of the Act of 1920 for a long enough period to make them eligible for relief. Consequently an amendment was made to the effect that benefits in advance of contributions might be paid to unemployed persons who would ordinarily find work in the insured trades. This was the first of several changes which in effect removed unemployment insurance from a strict actuarial basis and transformed it into an instrument of public relief. Throughout, however, there has been an attempt to maintain the essential features of a genuine insurance arrangement. The income of the unemployment fund has been derived from regular contributions payable by employers, employees and the government. The following weekly rates were set by the Act of 1929 and were in operation until October 1, 1931.[40]

TABLE VIII
Weekly Payments for Each Insured Person, 1929-1931

Class of Insured	*By Employer (pence)*	*By Worker (pence)*	*By Exchequer (pence)*
Men, 21 and over	8	7	7½
Men, 18 to 21	7	6	6½
Boys under 18	4	3½	3¾
Women, 21 and over	7	6	6½
Women, 18 to 21	6	5	5½
Girls under 18	3½	3	3¼

The rates of benefit fixed by the Act of 1927 were 17*s.* and 15*s.* weekly, for men and women respectively. In addition there was an allowance of 9*s.* a week for not more than one adult dependent and of 2*s.* a week for each dependent child. The rates of benefit for other classes varied from 14*s.* for young men from 18 to 20 years of age to 5*s.* for girls under 17 years of age. Although the provisions of the Unemployment Insurance Act of 1927 required the payment of at least 30 contributions in the preceding two years before a worker was eligible to receive benefits, the Act also provided for the payment of a transitional benefit to a claimant 18 years of age and over who had not made the required number of contributions provided he could prove (1) that eight or more contributions had been paid during the previous two years or that thirty contributions had been paid at any time; and (2) that he was normally employed in insurable employment and would continue to seek employment of such a nature.

Cost of Unemployment Insurance

As there was no provision for an income adequate to pay the transitional benefits, the latter have constituted a heavy burden upon the Exchequer.[41] In 1920 and 1921 there was, of course, no conception of the permanence and extent of unemployment in England. Hence the revenue-producing provisions of the enactments proved hopelessly inadequate, and the unemployment fund was obliged to borrow large amounts through the Exchequer to meet its obligations.[42] Some idea of the cost of unemployment insurance during the past four years may be obtained from Table IX.

37. Great Britain, Public General Acts (10 and 11, Geo. V., 1920, Chap. 30), *Unemployment Insurance Act, 1920,* p. 184 *et seq.* Two other large groups omitted from the 1920 Act were railway men and permanent employees of local authorities, and workers covered by the two Special Schemes for the banking and insurance industries.

38. *National Insurance Act, 1911,* cited, p. 424.

39. *First Report of the Royal Commission on Unemployment Insurance* (London, H. M. Stationery Office, 1931), Cmd. 3872, p. 13.

40. *Ibid.,* p. 16.

41. The number of persons receiving transitional benefit has increased from 120,000 in January 1929 to 410,000 in May 1931. (*First Report of the Royal Commission on Unemploy-*

TABLE IX
Unemployment Fund Finances[43]
(Summary of Receipts and Payments)

	Year ending March 1928	March 1929	March 1930	March 1931 (approx.)
Number of Workpeople Insured	*11,750,000*	*11,500,000*	*11,700,000*	....
Average Live Register	*1,083,964*	*1,283,785*	*1,283,020*	*2,278,500*
Receipts				
Employers } Employed }	£31,164,838	£30,534,468	£30,935,977	{£16,035,000 / 13,700,000
Exchequer	12,024,910	11,757,831	19,411,386	35,470,000
Refunds*	10,052	16,993	20,032	....
TOTAL	£43,199,800	£42,309,292	£50,367,395	£65,205,000
Payments				
Benefits	£36,484,356	£46,766,094	£45,964,148	£92,220,000
Administration; Interest accrued on Treasury advances; Other items	6,293,260	6,927,262	7,433,348	{6,370,000 / 2,510,000 / 230,000
TOTAL	£42,777,616	£53,693,356	£53,397,496	£101,330,000
Deficit	£24,627,983	£36,012,047	£39,042,148	£..................
Debt of fund at end of year	24,530,000	35,960,000	38,950,000	73,620,000
Other liabilities	....	....	....	1,485,000

*Includes additional exchequer contribution in respect of transitional benefit.

Revision by the National Government

As part of the emergency measures passed by Parliament on September 29 of this year, a drastic revision was made in the entire unemployment insurance scheme. For some time there had been a growing realization of the necessity of making the unemployment fund again self-supporting; changes had been recommended by both the May Committee on National Expenditure and the Royal Commission on Unemployment Insurance. The weekly contributions of employer, employee and government were increased to 10*d.* each for men, and 9*d.* each for women and young men, with corresponding increases for the other age groups. Benefits were reduced approximately 10 per cent for all classes, with the exception of the allowance for children which remained unchanged at 2*s.*[44] The length of time during which an unemployed person can draw benefit was reduced from 72 consecutive weeks to a maximum of 26 weeks in any one benefit year; and, although the transitional benefit was retained, after November 12 it is to be reserved for those whose family incomes are below the standard set by the local poor authorities.

Effect on England's Financial Position

There is a strong difference of opinion as to the effect of unemployment insurance upon the country's economic position. Some observers declare that high wages, plus unemployment insurance, are the basic causes of England's present difficulties, and that the scheme has weakened the morale of the British working class.[45] On the other hand, it is significant that this view has not been confirmed by any of the three recent official bodies[46] which have considered the problem.

ment Insurance, cited, p. 18.) This latter figure constitutes nearly 18 per cent of the total number receiving unemployment insurance benefits.

42. The debt of the unemployment insurance fund at the end of November 1930 was £56,600,000, and had risen to £100,750,000 on September 18, 1931. (*The Times,* London, September 19, 1931.)

43. Cf. Royal Commission on Unemployment Insurance, *Minutes of Evidence presented by the Accountant-General of the Ministry of Labour, 9th January, 1931;* also *The Ministry of Labour Gazette,* cited.

44. Under the new law the weekly benefit for a man is 15*s.* 3*d.*; for a woman 13*s.* 6*d.*; for an adult dependent 8*s.* Thus an unemployed married man with two children is entitled to 27*s.* 3*d.* (nominally $6.81) weekly, whereas he formerly received 30*s.* (nominally $7.50). For further details, cf. *News Chronicle* (London), September 11, 1931.

45. Cf. Siegfried, *England's Crisis,* cited, p. 93-102; also statement of Sir Ernest Benn, *New York Herald Tribune,* September 28, 1931.

46. Royal Commission on Unemployment Insurance; Committee on Finance and Industry; and Committee on National Expenditure.

Admitting that certain abuses have developed, these commissions have been rather inclined to look upon the scheme as the only sound method of preventing widespread destitution and distress. Although unemployment insurance has not abolished altogether the necessity for poor relief, it has prevented the need of such relief from increasing to any marked extent during the last few years.[47] There can be no question that the burden of maintaining over two and a half million unemployed serves to increase British industrial costs, or that this in turn tends to increase unemployment by reducing the demand for British products: the cost remains the same, however, whether it takes the form of insurance or charity. And, as even the most violent critics admit, no political party would dare advocate the abolition of unemployment insurance.[48] The government's obligation to care for those who are thrown out of work through the exigencies of the industrial system has become an accepted principle.

HIGH INDUSTRIAL COSTS

There is rather general agreement among economists that the crux of Britain's economic difficulties lies in the fact that its manufacturing costs are among the highest in the world.[49] There is disagreement, however, when it comes to apportioning the responsibility for this situation. The causes are complex, and it is difficult to ascertain definitely the part played by any one of them. Since the war, for instance, Great Britain does not seem to have increased in technical efficiency as rapidly as its chief competitors. Much of the machinery, especially in the heavy industries, is antiquated and frequently obsolete.[50] There have been many cases where conservatism and lack of initiative have prevented the adoption of modern methods of industrial organization.[51] Yet there is danger of overstating the alleged deficiencies of British industries, for it is estimated that the hourly output of each worker in 1929 was at least 10 per cent higher than in 1924 and 33 per cent greater than in 1907.[52]

It is significant, however, that the industries which have suffered most from the post-war depression and have the greatest number of unemployed—cotton, iron and steel, and coal mining—are the ones that have lagged behind most seriously in regard to modernizing methods and equipment.[53] At the end of the war these key industries found themselves developed to over-capacity, over-capitalized[53a] and burdened with high taxes and obsolete equipment. Unable to make profits with the existing equipment, the owners have apparently been over-cautious in spending money to re-equip their plants. The following figures show the contrast between these industries and their American counterparts.

TABLE X

Relative Industrial Statistics—United States and Great Britain

	United States	Great Britain
*Cotton Industry**		
Number of ordinary looms	134,000	679,000
Number of automatic looms	565,000	14,000
Coal Industry†		
Output per worker in tons‡	966§	281¶
Amount of coal mined by machinery‡	over 70%¶	23%¶
Iron and Steel Industry		
Basic open-hearth-steel, per cent of total output	about 85%**	about 65%**
Number of furnaces in operation	292¶	632§
Furnaces with capacity of 100 tons or more	274¶	32§

*Figures of the International Cotton Federation in Manchester, quoted in October Letter of the National City Bank of New York, 1931.
†*The United Kingdom*, cited, p. 95, 175, 187.
‡Much caution should be exercised in interpreting these figures as the majority of British mines are not so easily adapted to mechanization as American mines and often machinery would be economically impracticable. This accounts, also, to a large extent for the lower per capita production.
§In 1926. ¶In 1927. **In 1928.

47. The total expenditure for all forms of poor relief in 1930 was £39,250,000, which represents a decline of £420,000 from 1929. (*Labour Year Book, 1931*, cited.) Of the 820,000 persons in England and Wales receiving such assistance during the first quarter of 1931, 33,611 were insured persons who were also receiving unemployment benefits, 94,131 were listed as wives or children of a man receiving these benefits, 38,373 were not insured but were registered at an unemployment exchange, while 150,620 were employed but receiving inadequate wages. No information is obtainable regarding the others. (*Ministry of Labour Gazette*, July 1931.)
48. Siegfried, *England's Crisis*, cited, p. 105.

The decline in the relative efficiency of British industry and mining has raised in many minds the question of whether England has not permanently lost the outstanding advantages which it enjoyed at the beginning of the Industrial Revolution. There are those who believe that Great Britain has entered upon a period of economic decline which is permanent, that its population is too large in comparison with its economic potentialities, and that even the greatest possible increases in efficiency will enable it only to maintain its present position.[54] England's dramatic rise to industrial leadership in the early days of the nineteenth century was based largely upon its supplies of easily available coal and iron. Since that time, however, its high-grade iron ore resources have been nearly exhausted and, in the view of some authorities, are now quite inadequate for the needs of modern industry.[55] In 1929 over 63 per cent of the iron ore used in the United Kingdom was imported.[56] Moreover, coal has been becoming steadily more costly to produce. The actual production by each person engaged in mining is now about two-thirds of what it was in 1880, and one-third of what it is in this country.[57] The chief reason for the decreasing efficiency of the individual miner in Britain is usually attributed to the fact that the better seams are giving out, and that much of the coal must be brought from greater depths, involving much higher costs of production.[58]

The prophets of despair have received very little support, however, from any of the official inquiries into Britain's economic prospects. While the post-war period has been marked by a decline in certain of the export industries, the national income has shown no decrease. A slight decline in the internal consumption of coal has been more than counterbalanced by the increasing use of oil and the modern economies in coal consumption.[59] Assuming that the present rate of output remains fairly constant, it is officially estimated that the coal reserves now known to exist in the United Kingdom will last between four and five centuries.[60]

The British Wage Level

As another factor, there is a tendency among Conservatives to lay the blame for Britain's falling exports upon the stubborn resistance of the trade unions to adjusting the wage-level to the recent reduction in prices and the general cost of living. It is claimed that the policy of maintaining money wages irrespective of the course of real wages is responsible for the lack of flexibility in industrial costs which has prevented British goods from competing on equal terms in the world market. On the other hand, the workers maintain that their wages are not excessively high and that the primary responsibility for high manufacturing costs should be laid on the management for their failure to keep pace with technical development in other countries, and on the exorbitant exactions of the *rentier* class.

Although British wages are low according to the American standard they have always been considerably higher than those on the Continent. Events since 1920 have tended in some cases to increase this discrepancy in wages while modern methods of organization and technical processes have become more general, with the result that competition has borne more heavily on British producers.[61] In Table XI, which has been compiled from International Labour Office figures, approximate real wages in various cities throughout the world are given.[62]

---

49. *Ibid.*, p. 59.
50. *Ibid.*, p. 69.
51. *Britain's Industrial Future*, cited, p. 42; 126-135; also Loveday, *Britain and World Trade*, cited, p. 177.
52. Committee on Finance and Industry, *Report*, cited, p. 54.
53. Cf. however, footnote 20, p. 326.
53a. Cf. Great Britain, Committee on Industry and Trade, *Report* (London, H. M. Stationery Office, 1928), 51-148-3, Part II, Chap. III, p. 172 *et seq.*
54. Warren S. Thompson, *Danger Spots in World Population* (New York, Alfred A. Knopf, 1929), p. 271-282.
55. Cf. Blanchard and Visher, *Economic Geography of Europe* (New York, McGraw-Hill and Company, 1931), p. 182.
56. Figures based upon value of the ore. The value of the iron ire produced in Great Britain was £3,646,000 and of that imported was £6,218,000. (*Statesman's Year Book, 1931*, cited, p. 52.)
57. OUTPUT OF COAL PER PERSON

Period (Yearly Average)	*United Kingdom Tons*	*United States Tons*	*Germany Tons*
1874-78	270	327	209
1879-83	319	427	257
1884-88	319	398	269
1889-93	282	444	257
1909-13	257	636	256
1919-23	195	623	163
1924	220	655	209
1925	217	......	234

Report of the Royal Commission on the Coal Industry (1925) (London, H. M. Stationery Office, 1926), Cmd. 2600, Vol. I, p. 127.
58. Blanchard and Visher, *Economic Geography of Europe*, cited, p. 180.
59. *Britain's Industrial Future*, cited, p. 14-15.
60. This estimate assumes the working of coal at depths greater than 4,000 feet to be impracticable. Otherwise the period would be much longer. *Report of Royal Commission on the Coal Industry (1925)*, cited, p. 19.
61. *Britain's Industrial Future*, cited, p. 19.
62. These are based on data obtained from workers in the following trades: building, engineering, furniture, printing and bookbinding. The wages of both skilled and unskilled labor are taken into account.

TABLE XI
Relative Real Wages in Various Cities—1927[63]

(General Average Index Number, including allowance for rent, London=100)

Philadelphia	175-180
Ottawa	150-155
Copenhagen	105-110
London	100
Amsterdam	85-90
Berlin	65-70
Paris	55-60
Brussels	50-55
Rome	45-50

The Trend of Wages Since the World War

The best available statistics indicate that real wages increased slightly in England between 1914 and 1930 although the gains have not been at all universal. According to the Ministry of Labour, money wages between 1924 and 1929 remained practically unchanged at between 170 and 175 per cent of the pre-war level. The index of the cost of living, on the other hand, had fallen from 180 to 166 during the same period, and by April 1931 had dropped fully 18 per cent under the 1924 level.[64] These figures, however, are averages which conceal a wide diversity in the relative positions of workers in various industries. The real wages of workers in industries directly exposed to foreign competition have been actually much lower than before the war, while those in "sheltered" occupations have been higher.[65] The course of money wages together with that of real wages is indicated in Table XII.

TABLE XII
Course of Real Wages[66]

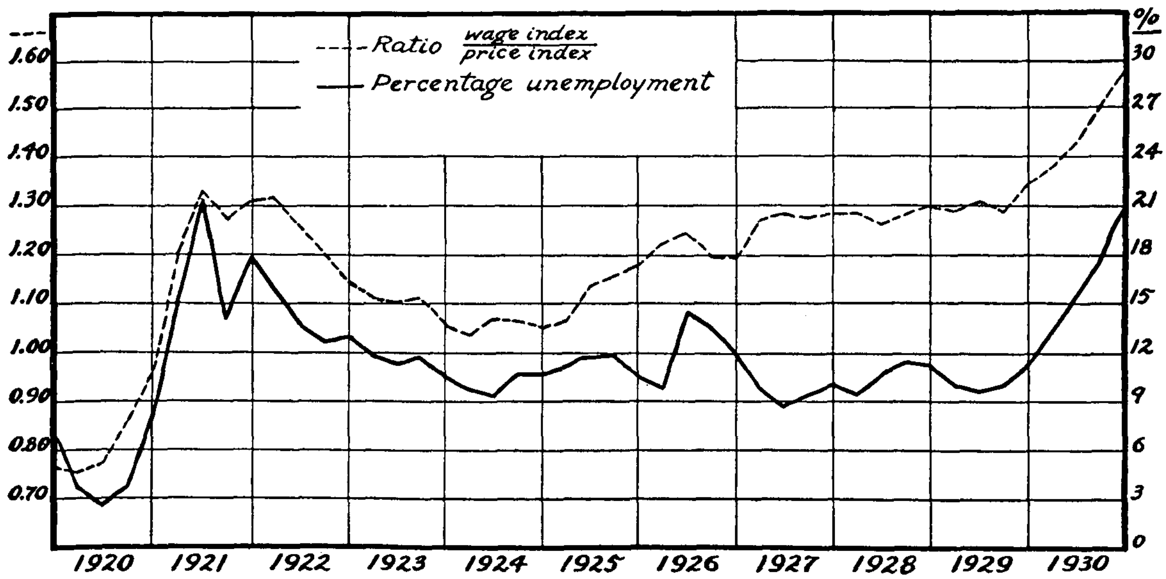
End of June	*Nominal Wages*	*Cost of Living Index*	*Real Wages**
1914	100	100	100
1920	252.5	252	100
1921	250.0	219	114
1922	187.5	184	102
1923	167.5	169	99
1924	170.0	170	100
1925	175.0	173	101
1926	175.0	170	103
1927	172.5	166	104
1928	172.5	165	105
1929	172.5	161	107
1930	172.0	155	111
1930, Dec.	172.0	153	112

*Excluding effect of unemployment. A totally different picture is given when allowance is made for the effect of unemployment upon the real wages of the working class. The index prepared by the Trades Union Congress shows that, on the basis of 1920, real wages dropped from 99 in January 1930 to 96 in December of that year.

Since the beginning of the present year, wage reductions have been widespread, although not drastic. In the first eight months of 1931, 2,589,000 workers suffered wage cuts aggregating £334,750 weekly, while 30,550 secured increases totalling only £3,400. The most important decreases have been in the three industries most seriously affected by foreign competition—coal mining, engineering and textiles—over 300,000 persons receiving wage cuts in each case.[67]

The argument that the extreme slackness of British industry is primarily due to the failure in adjusting wages to prices is apparently supported by the striking parallel

RELATION BETWEEN UNEMPLOYMENT AND THE WAGE-PRICE RATIO[69]



which exists between the fluctuations in unemployment on the one hand and the ratio of wholesale prices to wages on the other.[68] One should be very cautious, however, in the interpretation of this phenomenon. While a casual connection probably exists, the fluctuation of both indices may be the result of some undetermined cause. Recent investigations have indicated that the relationship is actually between the wholesale price level and unemployment.[69a]

In answer to the accusation that the trade unions have been unduly stubborn in maintaining wages at a time of falling prices, the unions have pointed out that the inflexible charges of the *rentier* class constitute a much more abnormal burden than the wages of workers. Whereas, according to Stamp and Bowley, the wage-earners obtained only 44 per cent of the national income in 1924,[70] fixed money incomes—drawn from the public debt, debentures and rents—amounted to 26.4 per cent.[71] One authority estimates that the shrinkage in total income, corresponding to the fall in wholesale prices, has raised the *rentier's* share to 35 per cent of the national income.[72] Although this burden does not appear to rest as directly upon industry as that of wages, the practical difference is not great. The exceptional amount of Britain's public debt has brought about a heavy burden of taxation which in turn is reflected in high rents and a high cost of living which necessitates high wages.[73]

MONETARY POLICY

Both high wages and the excessive burden of public debt can be attributed in part to the monetary policy which led England to restore sterling to its pre-war parity in 1925.[74] Great Britain was the only European participant in the war which did not rid itself of at least part of its war indebtedness by currency inflation, and its position has been rendered even more difficult by the fact that it has sought to repay in gold a debt contracted at a time when sterling was worth much less than it has been during the last decade.

GREAT BRITAIN'S IMMEDIATE DIFFICULTIES

Thus, it is stated that the relatively high production cost of British goods, due to antiquated methods, high wages, a heavy burden of public debt and a mistaken monetary policy, has resulted in a serious decline in Britain's export trade, and that the consequent disparity between imports and exports is unquestionably the basis of the weakness in sterling. After making due allowances for the changing value of money, exports during the last decade have remained practically at a standstill, while imports have increased markedly.[75]

Nevertheless, despite the growing unfavorable trade balance, England has experienced no difficulty until recently in maintaining a favorable balance of international payments.[76] Although a considerable proportion of the income from foreign investments is required to pay for the excess of imports, the percentage of the foreign income utilized for this purpose until the current depression has not been any greater during the last decade than it was before the war. The situation during the past year and a half, however, has been distinctly unfavorable, as is shown in Table XIII.

63. *Britain's Industrial Future,* cited, p. 18.
64. Committee on Finance and Industry, *Report,* cited, p. 51.
65. The index of wages of Northumberland coal-miners in 1929 was only 120, of Welsh coal-miners 135, engineering day-laborers 183, skilled mechanics 151, textile workers 150 and skilled workmen in shipyards 142, as compared with 100 in 1914. On the other hand, day laborers in the building trades had an index of wages of 200, skilled railwaymen 190, typesetters 207, and furniture-makers 185-95. The index of the cost of living at the end of 1929 was 166. (Siegfried, *England's Crisis,* cited, p. 84.)
66. Compiled by the Ministry of Labour; *Labour Year Book, 1931,* cited, p. 36.
67. *Ministry of Labour Gazette,* September 1931, p. 358.
68. This phenomenon was first discovered by Professor Rueff, a French economist, and later verified and elaborated by Professor Pigou of Cambridge. For details, see Loveday, *Britain and World Trade,* cited, p. 172-5.
69. Unemployment figures from the last quarter of 1921 to December 1930 are for Great Britain and Northern Ireland; from December 1920 to September 1921 for Great Britain only; and prior to December 1920 for the United Kingdom as a whole. (*Abstract of Labour Statistics of the United Kingdom,* Nos. 18, 19 and 20, Cmd. 2740, 3140 and 3831. The wage-price curve derived by Rueff is taken from Siegfried, *England's Crisis,* cited, p. 94-5. *Ministry of Labour Gazette,* September 1931.)
69a. In an investigation conducted for the International Institute of Statistics, John Hilton pointed out that wages are stable in all countries, thus the relationship is between wholesale prices and unemployment; and deflation rather than the dole is the cause of unemployment. (Cf. *New Statesman and Nation,* October 17, 1931, p. 474.)
70. *Britain's Industrial Future,* cited, p. 16.
71. H. N. Brailsford, "The Fall of the Labor Government," *New Republic* (New York), September 16, 1931, p. 117.
72. *Ibid.*
73. The 1930-1931 budget provided £304,600,000 for the payment of the interest and management of the national debt, and £50,400,000 as a sinking fund for the repayment of this debt. The total, £355,000,000, is approximately 9.9 per cent of the total national income, and over 45 per cent of the revised national budget. (Cf. footnote 86, p. 336.) This proportion should be substantially reduced by the conversion of the 5 per cent war loan to bonds bearing a lower rate of interest. (*New York Times,* October 2, 1931.)
74. Siegfried, *England's Crisis,* cited, p. 60-68.
75. Cf. *Appendix,* p. 340.
76. Cf. Table III, p. 325.

TABLE XIII

Proportion of Foreign Income Required to Pay for Imports[77]

	Estimated income from abroad per annum (million pounds)	*Amount required to balance import account (million pounds)*	*Balance representing net export of capital (million pounds)*	*Percentage foreign income needed for imports*
1870-79	47.8	15.5	32.3	32.6
1880-89	64.8	22.3	42.5	34.5
1890-99	92.5	56.3	36.2	60.8
1900-09	121.5	56.1	65.4	46.2
1910-13	180.7	-6.8*	187.5*	nil
1927-29	270.0	146.7	123.3	54.3
1930	235	196.0	39.0	83.4

*According to some authorities these figures are open to considerable doubt.

Since England is able to pay for its excess imports with the invisible income from foreign investments and commercial and financial services, however, it is clear that some special factors must be responsible for the recent lack of confidence in sterling. As the leading creditor nation, Great Britain found itself in an especially vulnerable position as the effects of the world depression became increasingly widespread. The collapse of commodity prices during the last two years, including that of silver, has greatly impoverished the agricultural countries and those producing raw materials, with the result that many have become insolvent and are unable to meet interest payments. It was the difficulties in Central Europe, however, that had the greatest immediate effect on England's financial position. During the last decade Great Britain has invested heavily in Germany and Austria, in the hope of restoring normal economic conditions after the ravages of war and the ensuing inflation, but these credits became frozen as a result of the depression. The collapse, in May 1931, of the *Credit-Anstalt,* a leading Vienna bank, resulted in a contraction of credit throughout Europe and led to the German financial crisis in July which caught Britain with approximately $250,000,000 in short-term loans to German banks,[78] and an equal amount of short-term funds invested elsewhere.[79] In the Austrian crisis, the Bank of England, despite its critical position, advanced $21,000,000 to the Austrian government, and later joined in a central banking credit to the *Reichsbank* to the extent of $25,000,000. These advances, in addition to the larger amounts privately invested, also became frozen and were completely unavailable in the crisis which followed.

Frozen Credits in Central Europe

The chief weakness of Britain's position, however, lay in the fact that a considerable amount of the money advanced to Germany and Austria had been obtained from short-term foreign loans, chiefly from France.[80] The French and other foreign investors appear to have become alarmed at Britain's somewhat precarious position, for soon after the German crisis they began to draw their funds from London. Between July 15 and 29, the gold reserve of the Bank of England fell from £163,991,026 ($797,000,000) to £132,034,694 ($641,500,000).[81]

The Budget Deficit

The situation was further aggravated by the publication on July 31 of the report of the May Committee, forecasting a budget deficit of £120,000,000 for the current year without allowance for the loss of £11,000,000 resulting from the Hoover moratorium.[82] Although practically every country in the world

---

77. *The Economist* (London), Vol. CXIII, No. 4595, September 19, 1931, p. 510.

78. According to the report of the Wiggin Committee, the total short-time indebtedness of German banks to England in the middle of July was 1,051,000,000 reichsmarks. (*The Economist,* London, August 22, 1931, Supplement, p. 6.)

79. The amount of English capital invested in Germany has been estimated as follows:

	Approximate billions of Reichsmarks
In long-term loans	1.1
In stock shares	0.15
Minimum amount of long-term investments	1.25
Short-term money in 28 leading German banks	1.1
Other short-term investments	1.0
Short-term money total	2.1
Investments in German mortgages, securities, etc.	Unknown

Wochenbericht des Instituts für Konjunkturforschung, 4th year, No. 26, Berlin, September 23, 1931.

80. Brailsford, "The Fall of the Labor Government," cited.

81. *The Economist* (London), July 18, 1931 and August 1, 1931. Great Britain has no statutory minimum for its gold reserve.

82. Committee on National Expenditure (May Committee), *Report* (London, H. M. Stationery Office, 1931), Cmd. 3920.

is faced with the prospect of a large budget deficit, England's budget difficulties attracted world-wide attention for two reasons: first, the abnormally high rate of existing taxation; and second, the costliness of unemployment insurance. The latter situation had led certain interests in the United States to seek to discredit the insurance scheme, in the hope of preventing its spread to this country.[83] Declining revenue and increased expenditure had given some concern for a number of months, but the report of the May Committee came as an unpleasant shock to the British people, especially as it indicated more than three times the deficit forecast by Philip Snowden, Chancellor of the Exchequer, in his annual budget speech on April 28, 1931,[84] and further increased the anxiety of many foreign investors.

Although a credit of $250,000,000[84a]—obtained by the Bank of England on August 1 from the Federal Reserve Bank of New York and the Bank of France—served temporarily to stem the flow of gold, withdrawals of short-term investments continued. Upon the assumption that confidence might be restored if the budget could be balanced through cutting salaries and reducing unemployment insurance benefits, Prime Minister MacDonald forced the resignation of the Labour Cabinet on August 24 and established a National Government.

The Labour Party, however, while recognizing the need for economy, stoutly opposed what it declared to be

> "an attempt to reverse the Social policy which . . .has within limits provided for the unemployed, the aged and the sick, the disabled, the orphaned and the widowed"; and asserted that the immediate situation could be met "without further depleting the slender means of the poor and without restricting national and local expenditure directed to the development of the country's resources . . . If the will were present, we could overcome the immediate difficulty by mobilizing the country's foreign investment, by temporary suspension of the Sinking Fund, by taxing fixed interest-bearing securities and other unearned incomes . . . and by measures reduce the burden of the war debts."[85]

The relative unimportance of the economy issue was soon evident, for despite the fact that the new government was able to obtain an additional credit of $400,000,000 from French and American bankers, the emergency measures which it sponsored for balancing the budget proved unavailing.[86] Withdrawals of gold were resumed on September 18 and 19, the shipments going primarily to the Netherlands; and when the suspension of gold payments was declared on the following day, it was announced that in all more than one billion dollars had been withdrawn from the London market since mid-July. As the amount of gold remaining merely balanced the recently obtained foreign credits, the suspension of further gold payments was inevitable.

Effect on England of Other Nations' Gold Policy

Many British observers feel that the gold policy followed by the Bank of France and the United States Federal Reserve system during recent years is responsible not only for the current shortage of gold,[87] but for the breakdown of the normal working of the gold standard itself.[88] Formerly, the influx of gold into a country was followed by an inflation of credit. This tended to increase the price level in that country, and in turn to check exports and stimulate imports,

83. The official Labour newspaper described the demands for the reduction in unemployment benefits as a "startling and apparently successful attempt by United States bankers to dictate an internal policy of Britain." (*Daily Herald*, London, August 24, 1931.) This accusation, however, was strongly denied both by the officials of the Federal Reserve Bank of New York and by the private bankers responsible for the credits advanced to the National Government. (*New York Herald Tribune*, August 26, 1931.)

84. This did not mean, however, that the national expenditure threatened to exceed the national revenue by £120,000,000, for £50,000,000 of the estimated deficit was accounted for by sinking fund applications and 40 millions by borrowings for the Unemployment Insurance Fund, concerning which the committee were in complete disagreement with the Chancellor of the Exchequer. (*The Economist*, London, August 8, 1931, p. 255.)

84a. Of this credit, $100,000,000 was repaid October 31. This payment reduced the gold holdings of the Bank of England on November 4 to £121,908,232. (*New York Times*, October 31 and November 6, 1931.)

85. Joint Manifesto of the Trades Union Congress General Council, the National Executive Committee of the Labour Party, and the Consultative Committee of the Parliamentary Labour Party, August 27, 1931. (*The Times*, London, August 28, 1931.)

86. The budget presented by Chancellor Snowden on September 10 provided for expenditures of £783,300,000 for 1931-1932, while the total revenue was estimated at £784,700,000. The total savings for the budget year 1932-1933 over previous estimates were expected to amount to £70,032,000, and increased taxes to yield £81,500,000. These savings were effected by the reduction of the salaries of ministers, Members of Parliament, civil servants, and members of the defense and police forces, and by changes in the provisions of the unemployment insurance scheme (cf. p. 330). Tax increases included both the raising of the basic rate of the income tax from 22½ to 25 per cent, and the enlargement of its base by reducing the exemption limits.

87. In commenting on the suspension of gold payments, a leading article in *The Times* (London) on September 21 declared that "if the gold standard had not been operated by the United States and France in such a way as to lead to an accumulation of about three-quarters of the world's gold supplies in their central banks, Great Britain would have succeeded in remaining on the gold standard. By a process of hoarding, gold has been rendered scarce and therefore dear, and the pound, being a gold pound, has been dear also. The dearness of the pound has reduced Great Britain's competitive power in the world markets."

88. Committee on Finance and Industry, *Report*, cited, p. 68-69.

thereby reversing the trend of gold payments until a new equilibrium had been set up. In recent years, however, the British complain that it has been impossible to rely upon the country gaining gold to take such action as would preserve international equilibrium.[89]

In reply, it is said that the collapse of sterling was the direct result of what has been regarded as a mistaken policy on the part of the Bank of England. When other leading central banks were seeking to achieve as liquid a condition as possible, the Bank of England not only permitted the extension of large credits to Germany and Austria, but also tied up its current assets in government securities and thereby laid itself open to attack.[90]

PROPOSED SOLUTIONS OF GREAT BRITAIN'S PROBLEMS

Although it is generally recognized that England cannot hope to emerge from its present depression until there has been a revival of world trade, there is a widespread feeling that the end of the world slump will leave England where it found it—"the home of vast decaying industries"—unless there is a radical change in the national program.[91] Apart from modernization of equipment and technique, concerning which there is general agreement, there are five leading proposals for the solution of Britain's fundamental difficulties:

1. Wholesale reduction of wages and salaries.
2. Inflation of credit.
3. Devaluation of the pound sterling.
4. Introduction of a revenue or a protective tariff.
5. Empire preference.

WAGE REDUCTIONS

The orthodox remedy for a situation characterized by low industrial profits has always been reduction of wages. Most of the leading British economists and financiers have insisted that Great Britain cannot hope to compete in world markets until wages have been brought down.[92] The trade unions, on the other hand, have consistently opposed any reduction of money wages, on the ground that the working class has never received a fair share of the national income, and that any reduction of workers' wages would merely serve to increase the existing maldistribution of wealth.

INFLATION

The movement for retrenchment and wage-cutting is opposed, moreover, by a growing group of unorthodox economists, who hold that the basic remedy for the present depression lies in the stimulation of trade and industry through a carefully controlled inflation of credit by the Bank of England and other central banks throughout the world. A further cheapening of credit so as to make it readily available to industries throughout the country, the expansion of foreign loans and the development of governmental enterprise during the emergency are the chief proposals for achieving this end.[93] The immediate results of such an inflation would be, of course, a rise in prices and an increase in profits, which would presumably lead to a stimulation of industry and the reduction of unemployment. Once the process of inflation gets started, it must be brought under severe control if an unhealthy boom is to be avoided, and the advocates of the foregoing measures view the stabilization of prices through control of the volume of credit to be one of the chief responsibilities of the Bank of England.[94] It is fully recognized, however, that the control of the price level over a period of years can be gained only by international cooperation among the central banks of the leading creditor countries.

The advocates of inflation are inclined to look with apprehension upon the economy proposals of the newly established National Government as definite steps in the opposite direction. They declare that the reduction of both unemployment benefits and salaries of government employees will lead to a de-

89. *Ibid.*, p. 68-69.
90. On September 23, 1931, three days after going off the gold standard, the Bank of England reported that its investments in government debt and securities totalled £299,020,863, and in other securities £58,254,344. These two items constituted nearly two-thirds of the total on the asset side of the Bank's balance sheet. (*The Economist*, London, September 26, 1931.)
91. C. Harris, "The Economy Report," *The Nineteenth Century* (London), Vol. CX, No. 655, September 1931, p. 258.
92. *Cf.* Committee on Finance and Industry, *Report*, cited, Addendum III, p. 232-4; also Siegfried, *England's Crisis*, cited, p. 83 *et seq.*, and proposals of W. L. Hitchens, published in the September review of Lloyds Bank, London. (*New York Herald Tribune*, August 30, 1931.)
93. Committee on Finance and Industry, *Report*, cited, p. 135-136.
94. *Ibid.*, p. 114-118.

crease in business activities and profits, additional unemployment, and a further contraction of credit. One of Britain's leading economists estimates that the apparent economies will be cut in half in view of the diminished yield of taxation and the cost of increased unemployment.[95]

DEVALUATION OF STERLING

Since a large part of Great Britain's postwar difficulties may be ascribed to the heavy fixed burden involved in restoring sterling to its pre-war parity, the most obvious and effective method of ridding the nation's industry of this excessive burden is the devaluation of the pound. This has the advantage of bringing direct relief to the industries which need it most—those dependent upon foreign trade—and as it affects every class of income equally, it is even more effective than a general wage reduction.[96]

There is no evidence, however, to indicate that the suspension of gold payments on September 20 was the consequence of a deliberate desire to secure the supposed advantages of devaluation, for it is reasonably clear that this step was taken under the compulsion of events, to safeguard the country's gold reserve.[97] Moreover, the disadvantages involved in abandoning the gold standard or in lowering the gold value of sterling may easily outweigh the advantages. A large part of England's national income depends upon its activities as an international banker,[98] and much of this may be lost if it is unable to stabilize sterling either in terms of gold or in terms of commodity prices. It is, of course, impossible to say just how disastrous such a loss of confidence might prove, but monetary stability is clearly essential to the normal development of trade.[98a] In addition, the devaluation of the pound has resulted in a loss of income on British overseas investments to the extent to which they are fixed in sterling.[99] Furthermore, although the restriction of imports resulting from devaluation will undoubtedly be desirable from the point of view of the nation's balance of trade, it is undesirable in so far as it may result in a lowering of the British standard of living.[1]

95. J. M. Keynes, "Some Consequences of the Economy Report," *The New Statesman and Nation* (London), Vol. II, No. 25, August 15, 1931.
96. Committee on Finance and Industry, *Report*, cited, p. 199, 209.
97. Cf. p. 336; "Order Out of Chaos," *Monthly Review* (Midland Bank), London, September-October, 1931.
98. In 1930 Great Britain's net income from shipping was £105,000,000, the income from overseas investments £235,000,000, and the receipts from short interest and commissions £55,000,000.
98a. The maintenance of the internal stability of the pound is stressed in an article by Sir Arthur Salter in *The Times* (London), October 17, 1931.
99. Cf. Committee on Finance and Industry, *Report*, cited, p. 110-111.

TARIFFS

The levying of a revenue tariff, accompanied by a subsidy to exports would have the same desirable effects as those produced by a devaluation of sterling, according to an ever-growing number of authorities, but would not affect international obligations payable to Great Britain in gold.[2] This measure would avoid injury to Great Britain's financial prestige and would presumably not interfere in any way with the transaction of international banking operations. Although England has been traditionally a free-trade country,[3] the desperate conditions of the past few years have prompted leading men of all parties to turn to tariffs as a possible way out. By raising the prices on imported goods, it is felt that a tariff would bring about a drastic restriction of imports, thereby improving the balance of trade and stimulating the use of home products. There is a wide difference of opinion, however, concerning the most desirable rate of tariff. The Liberal and Labour leaders who have been won over to the tariff favor a moderate "revenue" tariff of 10 to 20 per cent, while the Conservative party is said to favor a 33 1/3 per cent protective tariff.[4]

Opponents of the tariff, on the other hand, insist that the suspension of the gold standard is having precisely the same effect as a tariff, and that the imposition of import duties at present would raise the cost of living to a point where it would be necessary to increase salaries, wages and unemployment benefits materially.[5] They also point

1. The economist's index number of wholesale prices in Great Britain was 8.3 per cent higher on October 14 than it was at the time when the gold standard was suspended. (*New York Times*, October 18, 1931.)
2. Committee on Finance and Industry, *Report*, cited, p. 199.
3. While technically on a free-trade basis, customs revenues for the United Kingdom totalled £120,611,300 ($586,893,000) in 1929-1930. The corresponding figure for the United States in 1930 was $587,000,000. (*Statesman's Year Book, 1931*, p. 32; *Statistical Abstract of United States 1930*, cited, p. 171.) The greater part of this revenue is obtained from a tax on tobacco, and the remainder by a duty on a few articles which are regarded as luxuries.
4. *New York Times*, September 17, 1931.
5. The significance of the recent changes in unemployment benefits was strikingly brought out in Parliament by Mr. Geoffrey Mander, a Liberal, who declared that the unemployed were to have three cuts—the 10 per cent reduction, the devaluation of sterling, and tariffs. (*News Chronicle*, London, September 26, 1931.)

out that without an elaborate system of export bounties a tariff would tend to increase rather than decrease the cost of manufactured goods, because of the increased cost of raw materials, while export bounties would be hopelessly impracticable. They declare that it is impossible to speak of a temporary tariff, because after a tariff had been in force for a time and adjustments made, vested interests would be created which could not and would not tolerate a downward move. In fact, if a tariff is to prove effective, it must be continuously adjusted upward.[6] Furthermore, it is claimed that while the tariff would assist certain industries, it would be more a burden than an aid to the industries which most need help—textiles, and iron and steel—because these industries not only depend very largely upon imported raw materials but sell their products abroad.[7]

IMPERIAL PREFERENCE

Some political groups would supplement a protective tariff against foreign goods by an agreement for preferential rates within the British Empire. Such an arrangement is urged on the ground that the Empire as a whole is virtually economically self-sufficient: the Dominions, for the most part, are countries producing raw materials, while the United Kingdom imports raw materials and exports finished goods. The following table shows the trade of the United Kingdom with the principal British Dominions and Colonies:

TABLE XIV

Trade of the United Kingdom with Dominions and Colonies[9]

(Values in thousands of pounds sterling; percentage of figures show relative share of the total United Kingdom imports and exports.)

	1913		*1928*	
	Value	*Per cent*	*Value*	*Per cent*
Canada				
Imports	30,488	3.97	57,110	4.79
Exports	23,795	4.53	34,267	4.73
Australia				
Imports	38,065	4.95	55,469	4.63
Exports	34,471	6.56	55,699	7.69
British India				
Imports	48,420	6.30	64,491	5.39
Exports	70,273	13.38	83,921	11.46

6. Committee on Finance and Industry, *Report*, cited, p. 229-231.

7. Cf. Lionel Robbins' communication in the *New Statesmen and Nation* (London), March 28, 1931.

TABLE XIV (Continued)

New Zealand				
Imports	20,338	2.65	47,315	3.90
Exports	10,837	2.06	19,297	2.66
Union of South Africa				
Imports	12,301	1.60	24,152	2.02
Exports	22,185	4.22	31,471	4.35

Although, apart from India, a slightly larger proportion of England's total trade has been conducted with the various parts of the Empire during recent years,[10] it is noteworthy that England's share in imperial trade has diminished. In 1913 the United Kingdom furnished 44.2 per cent of the total imports of the overseas Empire, while in 1927 the total dropped to 36.1 per cent. Similarly, the proportion of the overseas Empire's exports to Great Britain to total Empire exports decreased from 41.2 per cent to 36.8 per cent during the same period.[11] It is clear from these figures that Great Britain has not been holding its own even in the growth of Empire trade; its problems in regard to trade with the Empire, in other words, are precisely the same as in its foreign trade in general. The situation would have been worse, however, were it not for the fact that England is already receiving a preferential customs rate of 25 to 40 per cent from the Dominions.

Although England would undoubtedly profit by imperial free trade, the Dominions feel the necessity for protecting the products of their relatively undeveloped industries against British competition and have shown no inclination to favor such a scheme.[12] In fact, certain sections of the Empire, and especially India, are more or less actively hostile to England and are seeking to restrict trade relationship as much as possible. Further tariff preference is a possibility, however, provided Great Britain is willing to set up a duty on foodstuffs—extending preferential treatment to the Dominions.

9. *The United Kingdom*, cited, p. 535.

10. The percentage of British imports coming from the Empire rose from 20.5 per cent in 1913 to 27 per cent in 1927, and the percentage of exports going to various parts of the Empire advanced from 37.2 per cent to 43.2 per cent.

11. Siegfried, *England's Crisis*, cited, p. 227-228.

12. An illustration of the looseness of the economic ties between the mother country and the Dominions may be found in the recent action of Canada in decreeing that, for duty purposes, the value of all shipments would be figured in terms of the pound sterling at par and that special dumping duties would be applied on British imports in order to eliminate any advantage gained from the depreciated pound. (*New York Times*, October 1, 1931.)

CONCLUSION

It is still far too soon to determine the effect of Great Britain's recent steps on the general prosperity of the country. The suspension of the gold standard and a tariff, if adopted, will undoubtedly improve the nation's balance of payments and therefore its basic credit. Imports will be checked and, to some degree at least, the devaluation of the pound sterling will stimulate exports.[13] New overseas lending and the purchase of securities abroad will be discouraged, while the sale of foreign securities by British holders will be made attractive. These tendencies should work toward a strengthening of the position of sterling, and must be balanced against the hitherto weakened position in regard to the balance of international payments. On the other hand, very few British authorities see any ground for marked optimism. It is generally recognized that there is very little hope of a pronounced recovery in industry until buying power throughout the world recovers, and sterling is stabilized.[14]

The essential problems confronting England today are the same as those facing all the great industrial nations of the world. The trend of developments in recent years has been toward a greater diffusion of industry which has placed a severe burden upon those countries dependent upon the sale of manufactured goods. In the competition for markets, England has been increasingly handicapped by high industrial costs, and has probably suffered greater losses than any of her rivals. The difficulty in seeking a solution chiefly through a reduction of costs lies in the fact that measures toward this end would undoubtedly be met with similar steps by all the leading manufacturing nations, which would serve only to lower the standards of the working class without achieving any improvement in the basic situation. Under the circumstances it would appear that the return of British prosperity is intimately linked with the restoration of normal economic conditions throughout the world.[15]

APPENDIX

BRITISH VISIBLE TRADE BALANCE*

(In millions of pounds sterling)

Year	*Imports*	*Exports*	*Re-exports*	*Total Exports*	*Balance*
1911	680	454	103	557	—123
1912	745	487	112	599	—146
1913	769	525	110	635	—134
1920	1,933	1,334	223	1,557	—134
1921	1,086	703	107	810	—276
1922	1,003	720	104	823	—180
1923	1,096	767	119	886	—210
1924	1,277	801	140	941	—336
1925	1,321	773	154	927	—394
1926	1,241	653	125	779	—462
1927	1,219	709	123	832	—387
1928	1,197	723	120	844	—353
1929	1,221	729	109	839	—382
1930	1,044	571	87	658	—386
1931 (nine mos.)†	621	292	48	340	—281

*Figures 1911 to 1928 from *The United Kingdom*, cited, p. 506; 1929 and 1930 from *Statesman's Year Book, 1931*, p. 53.

†1931 figures from *New York Times*, October 14, 1931. Trade for the first nine months of the current year compares as follows with the corresponding periods in 1929 and 1930:

	1931	*1930*	*1929*
Exports, British	£292,385,000	£441,115,000	£543,411,000
Re-exports, foreign	48,254,000	67,679,000	84,437,000
Total exports	£340,639,000	£508,794,000	£627,848,000
Imports	621,370,000	785,194,000	897,111,000
Excess of imports	£280,731,000	£276,400,000	£269,263,000

13. There are indications already that the suspension of the gold standard has led to a revival of certain of the export industries. (*New York Times*, October 20 and 22, 1931, and *New York Herald Tribune*, October 19, 1931.)

14. Cf. "Order Out of Chaos," cited.

15. Cf. editorial by Sir Walter Layton, *News Chronicle* (London), October 7, 1931.